

SAGA SERVICES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 JANUARY 2022

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SAGA SERVICES LIMITED
Company information

Directors:

J Hopes (Chair)
S Kingshott (CEO) (appointed 8 November 2021)
A Cross (resigned 18 November 2021)
K G Gibbs
S A Jones-Evans (resigned 30 April 2021)
J R Lister (appointed 14 September 2021)
C A Melvin (resigned 31 March 2022)
J Quin (resigned 16 May 2022)
P E Rowland (appointed 1 July 2021)
E A Sutherland (appointed 4 August 2021)
(resigned 16 May 2022)

Secretary:

V Haynes (resigned 16 May 2022)
N Koning (appointed 16 May 2022)

Registered Office:

Enbrook Park, Folkestone, Kent CT20 3SE

Company Registration no: 00732602

Auditor:

KPMG LLP, 15 Canada Square, London E14 5GL

SAGA SERVICES LIMITED

The Directors submit the Annual Report and the audited Financial Statements of Saga Services Limited ("the Company") for the year ended 31 January 2022.

Strategic Report

Review of Business Developments and Principal Activity

Saga Services Limited is an indirectly held subsidiary of Saga plc. Saga plc and its subsidiaries are collectively referred to as the Saga Group (the "Group").

The principal activity of the Company is the provision of insurance intermediary services to people aged fifty and over. The Company is regulated by the Financial Conduct Authority ("FCA").

The Company's key financial and other performance indicators during the year were as follows:

	2022 £'000	2021 £'000	Change %
Turnover	180,148	178,611	0.9
Net operating expenses	(116,593)	(110,269)	(5.7)
Profit before taxation	<u>63,555</u>	<u>68,342</u>	(7.0)
Expense ratio	<u>64.7%</u>	<u>61.7%</u>	

Turnover for the year to 31 January 2022 was £180,148,000 (2021: £178,611,000), up 0.9% on the previous year, predominately driven by a partial recovery of travel insurance sales which increased by £1.3m (32.2%), this was driven by COVID-19 restrictions easing. Motor sales increased by £5.9m (7.2%) due to an increase in motor renewal policies and higher renewal margins on the three-year fixed-price product. Partially offset by a decrease in PMI revenue of £5.6m (18.2%) as a result of pricing changes that have reduced renewal margins.

The expense ratio (defined as the amount of turnover expended on operating costs) has increased to 64.7% (2021: 61.7%) reflecting increased investment in brand marketing activity and colleagues.

The profit before taxation for the year amounts to £63,555,000 (2021: £68,342,000). After taxation, a profit of £51,984,000 (2021: £55,109,000) has been transferred to reserves. Dividends on ordinary shares paid to Saga Group Limited amounted to £75,000,000 (2021: £75,000,000).

The Company has continued to show good progress during the 2021/22 year. The main adverse movement driven by the pandemic has been a significant reduction to sales volume of the travel insurance product, although this has been recovering gradually during the year. The Company's three-year fixed-price proposition continues to be successful having sold 755,000 policies during the year to 31 January 2022 (2021: 610,000). This now comprises 46% of the total Motor and Home book, with 57% of direct new business taking the product. Home and Motor policies increased by 1.4% in the year (2021: 1.1%). The higher policy count is due to improved customer retention across Home and Motor, with margin per policy in line with expectations.

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Strategic Report (continued)

During the year the Company implemented changes required to satisfy the FCA's market study pricing remedies which came into effect on 1 January 2022. We are of the view that we are well-positioned to operate in a market that is focused more on propositions and service, alongside price. We believe these changes are positive for consumers as a whole and will encourage more focus on service and claims handling as prices become more aligned across the industry.

In the second half of 2021/22, we launched Saga Plus, our enhanced three-year fixed-price cover with added extras including our claims promise, onward taxi travel, legal and key cover as standard. More recently, The Institute of Customer Service rated us as the number one insurance brand in the UK for customer satisfaction and the third highest sector-wide. The Company delivers a high standard of service to its customers. We continually strive to monitor and enhance our customer services and experience through our website and call centre channels.

Risk Management Framework

The business operates within the Saga Group's enterprise risk management framework that facilitates the timely and effective management of all material risk exposures. Risk management plays a crucial role in the Company's formation of strategy and decision making against clearly articulated Board approved appetite statements.

Risk information is used to support and inform the decision-making process and is subject to continuous review and improvement so that it remains fit for purpose. The principal risks facing the business have been grouped into the following categories:

Competitive Risk

The Company continues to operate in highly competitive markets with increasing numbers of competitors recognising that the over 50's is an attractive market segment. This could lead to increased price competition, competitor innovation and proposition with the impact of reduced margins or market share. These risks are managed through the provision of products and services that are targeted to the needs of our customers, promotion of our brand, continuing efforts to improve operational efficiency, and focus on customer service, quality and value for money.

The three-year fixed-price product inflation risk has been partially mitigated through purchase of a stop-loss insurance agreement from a third-party provider.

Regulatory Risk

The Company is required to comply with the regulations of the FCA. A failure to comply with these regulations could cause the Company to incur fines or other sanctions that could affect its reputation, trading position and/or licence to operate. The Company works closely with the regulator to ensure compliance with regulations.

SAGA SERVICES LIMITED

Strategic Report (continued)

Risk Management Framework (continued)

In December 2021, the FCA published its second consultation paper 'A New Consumer Duty', which incorporates new consumer protection standards in retail financial services, designed to improve overall customer outcomes and to encourage firms to 'get it right first time'. It will be supported by a set of rules and required customer outcomes. These new rules are expected to be finalised in July 2022, with the implementation period running until April 2023. The Company is well positioned to meet these new standards, building upon customer-orientated working practices already embedded and operating to good effect.

Several activities have been completed during the year to remain in line with both current regulatory guidance and anticipated future developments, and in particular implementation of changes following the outcome of the regulator's market study into general insurance pricing which came into effect on 1 January 2022.

Third Party Risk

The Company relies upon several key internal and external third parties to deliver its services to customers. The key external third-party dependencies are mainly in respect of IT and insurance underwriting capacity/claims administration, whilst internally, the Company relies upon the Saga Group for the provision of Finance, HR, IT, Brand and Data related services and AICL for the provision of underwriting capability for Motor and Home insurance. Failure in one or more of these third-party dependencies presents the risk of reputational damage, loss of systems availability or other material business disruption. Within the Saga Group, external third parties are subject to regular oversight and auditing to ensure they are delivering the expected outcomes and performing in line with contractual service level agreements ("SLA"). Furthermore, third parties are subject to a formal and ongoing due diligence process that helps to ensure they are not likely to materially increase the risk to the business, its operations or its customers. Internal third parties are managed through regular monitoring.

Operational Risk

Whilst there are risks from our ongoing re-platforming onto Guidewire (the Company's insurance broking, policy administration and billing platform), we continue to strengthen our change risk governance to ensure that all significant change is carried out with the management of risk at the forefront of all go-live decisions, with close oversight from the Board for the most material changes.

Other key operational risks the Company faces include a successful cyber-attack and breach of the Data Protection Act 2018. Saga Group operate an effective set of information security controls to protect against cyber risk, which are also subject to external testing and compliance with ISO 27001. The business also works closely with the Group Data Protection Officer to maintain an appropriate set of controls to meet its data protection obligations. This involves prioritisation of projects to improve effective data management, coupled with simplification of the Group's technology estate and strengthening of the Group's Data Privacy team and capabilities.

The remaining key operational risk relates to inadequate colleague capability, capacity, or cultural shift to deliver our strategy. Saga as a whole has been continuing with the deployment of its people strategy to ensure the recruitment and retention of the right calibre of colleague. Our colleagues are essential to the Company being able to deliver exceptional customer outcomes.

SAGA SERVICES LIMITED

Strategic Report (continued)

Risk Management Framework (continued)

Intra-Group Risk

The Company is part of the Saga plc Group of companies and therefore has some exposure to risks that may materialise in other companies within the Saga plc Group. Management work closely with colleagues across the Group, providing input into and oversight of the reporting, management, and mitigation of material risks, including the Group's ongoing response to the COVID-19 pandemic. During the year the Company held an additional £5 million of liquidity to provide additional mitigation against intra-group contagion risks. This is expected to be a temporary measure as the Group navigates the impacts of COVID-19 on its cruise and holiday businesses.

As a guarantor of the Group's corporate bonds and five-year revolving credit facility ("RCF"), the Company is exposed to the risk that it would have to assume the debt obligation if the Group is not able to honour its debt commitments. The Group's corporate bonds are due to be repaid in May 2024 and July 2026 respectively and the RCF is available until May 2025 dependent on the repayment of the bond in May 2024. The Company also provides a super security to the Trustees of the Saga Pension Scheme, which ranks before any liabilities under the Group's bank facilities. The Company has a reasonable expectation that the Group will continue to honour its commitments as they fall due. Taking into account that Saga Group has undertaken a range of stress testing exercises to date that combined with its capital raise in October 2020, repayment of the term-loan and issue of the £250m corporate bond in July 2021, provides sufficient contingency to withstand a scenario that at this stage is considered a severe but plausible downside impact relating to COVID-19 on Group resources. For details of the scenarios modelled, please see pages 50 – 55 of the Saga plc Annual Report and Accounts for the year ended 31 January 2022.

COVID-19 Risk

The COVID-19 outbreak has created a major challenge and a high level of uncertainty for all companies. The Company remains resilient to this impact, having been successful in maintaining operational capability throughout this period, with all colleagues equipped to work from home. Whilst COVID-19 has impacted Travel brokerage, this has been partially offset by cost savings and trading improvements in other products. Travel brokerage has gradually recovered throughout the year, although remains below pre-pandemic levels.

Political uncertainty

The Russian invasion of Ukraine on 24 February 2022 has created heightened global economic and political uncertainty. Whilst the situation continues to unfold, a number of potential risks have been identified that could impact our ability to deliver on our strategy that will require close monitoring and an agile management response should the situation continue to escalate. The Company has considered the impact of inflationary pressures on both product pricing and consumer spending behaviours and anticipates that these may impact on pricing across the general insurance market in the short-term.

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Strategic Report (continued)

Section 172 (1) statement - Duty to promote the success of the company

The Directors have had regard for the matters set out in section 172(1)(a)-(f) of the Companies Act 2006 when performing their duty under section 172. The Directors consider that they have acted in good faith in the way that would be most likely to promote the success of the Company for the benefit of its members as a whole, while also considering the broad range of stakeholders who interact with and are impacted by our business.

The matters the Directors must have regard to, amongst others, are as follows:

- the likely consequences of any decision in the long term
- the interests of the company's employees
- the need to foster the company's business relationships with suppliers, customers and others
- the impact of the company's operations on the community and the environment
- the desirability of the company maintaining a reputation for high standards of business conduct
- the need to act fairly between members of the company

The Directors also consider other factors in their decision-making process, including the Company's purpose, values and strategy. The Company's values are aligned to those of the broader Saga Group, which are Precision Pace, Empathy, Curiosity and Collaboration. These values shape the behaviours needed to successfully deliver the Company's strategy and ensure fulfilment of the Company's purpose of delivering exceptional experiences everyday whilst being a driver of positive change in its markets and communities.

The decision-making process also needs to consider a balance of interests of key stakeholders including shareholders, customers, colleagues, partners, suppliers, regulators and the communities in which the Company operates. This is achieved by engaging with stakeholders during the year through a variety of means.

Below are some examples but not an exhaustive list of how the Directors have had regard to the matters specifically set out in section 172 when discharging their duties, and the effect of that on certain decisions taken.

Strategic planning and financial performance management

The Board delegates responsibility for the day-to-day running of the Company to the executive directors and their management teams. The Board is responsible for providing overall direction for management, deciding on strategic priorities and setting values and standards.

The Company's five-year plan which is based on its strategy and a set of assumptions and modelled scenarios, consists of commercial and operational performance projections, capital and cash flow forecasts, and is reviewed and approved by the Board in an annual process. The Company's performance is measured by the Board against the five-year plan during the year, variances to that plan are investigated and understood and appropriate action is taken to ensure the ongoing financial success of the Company.

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Strategic Report (continued)

Section 172 (1) statement (continued)

Colleague engagement

As part of the Saga Group, the Company carried out regular colleague surveys during the year that cover a wide variety of areas including working practices, career development, reward, health and wellbeing, and company strategy, values and purpose. These surveys provide the Directors with information about its colleagues' views and opinions, so it can continue to take appropriate actions to ensure the continued engagement of its colleagues. During 2021, the Group achieved its highest response rate to date of 93% and saw a significant improvement in engagement from 7.3 in February 2021 to 7.7 in November 2021.

The Company also keeps colleagues informed and connected via Workplace, a single, mobile-first internal communications platform that enables colleagues to share their feedback and ideas, and for their voices to be heard, encouraging an open culture.

Customer outcomes

The Directors consider customers to be at the core of the business, and everything the business does is aimed at creating exceptional experiences for them every day. Management seeks an in-depth understanding of customer behaviour and preferences, and design differentiated products that are tailored to their needs, provided alongside exceptional service. This creates value for the customers and serves to drive longer and deeper relationships with them.

The Company aims to maintain an honest dialogue with its customers, through customer telephone support, social media, the Saga Magazine and customer opinion panels. The Board receives regular reports from management based on customer insights and feedback and reviews NPS scores. Customer-facing colleagues are also invited to Board meetings to present details of customer experiences.

Customer outcomes are monitored through direct reporting to the Board and through risk and compliance governance committees, to ensure they are aligned with the expectations of the Company's regulators. The Directors track and monitor management's performance in relation to the fair treatment of the Company's customers and potential customers.

Partners and suppliers

Partners and suppliers are carefully selected to support the management's ability to deliver exceptional experiences every day, aligned to the interests of the Company's customers, and to complement the Company's in-house capabilities with certain specialist skills, knowledge or capital. In turn, those partners and suppliers benefit from access to the Company's colleagues, brand and deep customer insight. The Company aims to build mutually beneficial, long-term relationships with all key suppliers. The Board is kept informed of any changes to supplier risk management through liaison with the various risk forums operated within the wider Group.

SAGA SERVICES LIMITED
Strategic Report (continued)

Section 172 (1) statement (continued)

Local communities and the environment

Part of the Saga Group's purpose is to be a driver of positive change within its local communities, seeking to understand and carefully consider the impact of every decision made. The Company plays its part in delivering that. The Saga Group Chief Executive Officer and Chief People Officer meet with local community stakeholders each quarter to provide them with an update on the business, and which provides them with a forum to ask questions and engage on key topics.

Over the past 12 months, the Group has increased its understanding of its environmental and social impact and has introduced hybrid and electric vehicles in the fleet used within the wider business as an example of positive changes that the Group is making in this area. The Group is also reviewing how best to expand its electric vehicle insurance product offering. The Group has strengthened its level of reporting, alongside consideration of the new task force on climate-related financial disclosures that came into force for the first time this year. Further details of this disclosure can be found in the Saga plc annual report and accounts at the following location: <https://www.corporate.saga.co.uk/investors/results-reports-presentations/>.

By order of the Board


N Koning
Secretary

Enbrook Park
Folkestone
Kent
CT20 3SE

19 July 2022

SAGA SERVICES LIMITED

Directors' Report

The Directors submit the Directors' Report of the Company for the year ended 31 January 2022.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report, Strategic Report and Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under the law the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- use the going concern basis of accounting unless they either intend to liquidate the Company, cease operations or have no realistic alternative but to do so

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

SAGA SERVICES LIMITED

Directors' Report (continued)

Directors

The Directors, who served throughout the year and up to the date of this report (except as noted), were as follows:

J Hopes (Chair)	
S Kingshott (CEO)	(appointed 8 November 2021)
A Cross	(resigned 18 November 2021)
K G Gibbs	
S A Jones-Evans	(resigned 30 April 2021)
J R Lister	(appointed 14 September 2021)
C A Melvin	(resigned 31 March 2022)
J Quin	(resigned 16 May 2022)
P E Rowland	(appointed 1 July 2021)
E A Sutherland	(appointed 4 August 2021 & resigned 16 May 2022)

Employee involvement

During the year, the Company has maintained the practice of keeping employees informed about current activities and progress by various methods including our interactive online communications platform which enables and encourages colleagues to share their feedback and ideas. Employee participation and involvement is encouraged.

Employment of disabled persons

It is the policy of the Company to develop a working environment and to offer terms and conditions of service to provide disabled persons, with the appropriate skills and qualifications, equal opportunities to seek and maintain employment with the Company. It is the Company's policy to retain in employment, whenever practicable, employees who become disabled and give all such employees equal consideration for training and career development to enable them to fulfil their promotion potential.

Political donations

The Company has not made any political donations during the year.

Going concern

The Company's business activities, together with the factors likely to affect its future development and performance and its exposure to risk and its management of these risks, including the COVID-19 pandemic and the current political uncertainty are described on pages 3-5. The Company's assessment of going concern is included within note 2b of the financial statements.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

SAGA SERVICES LIMITED
Directors' Report (continued)

Disclosure of information to the auditors

Each current Director has made enquiries of their fellow Directors and the Company's auditor and taken all the steps that they are obliged to take as a Director in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Relevant audit information is that information needed by the auditor in connection with preparing the report. So far as each Director approving this report is aware, and based on the above steps, there is no relevant audit information of which the auditor is unaware.

Auditors

In accordance with section 487(2) of the Companies Act 2006, the Auditor KPMG LLP is deemed re-appointed.

By order of the Board



N Koning
Secretary

Enbrook Park
Folkestone
Kent
CT20 3SE

19 July 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAGA SERVICES LIMITED

Opinion

We have audited the financial statements of Saga Services Limited ("the Company") for the year ended 31 January 2022 which comprise the Income Statement, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 January 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAGA SERVICES LIMITED

(continued)

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, the Audit and Risk Committee and other members of management and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit and Risk Committee minutes.
- Considering remuneration incentive schemes and performance targets for directors and senior management.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue is not complex in nature and there is no significant management judgement or estimation involved in recording the revenue transactions.

We did not identify any additional fraud risks.

To address the pervasive risk as it relates to management override, we performed procedures including:

- Identifying journal entries to test, based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior management, those including specific words based on our risk criteria, those journals which were unbalanced, those posted to unusual accounts, those posted at the end of the period and/or post-closing entries with little or no description and unusual journal entries posted to either cash or borrowings.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAGA SERVICES LIMITED

(continued)

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Company is regulated, our assessment of risks involved gaining an understanding of the entity's control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Company's license to operate. We identified the following areas as those most likely to have such an effect: liquidity, conduct and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form regulated primarily by the Financial Conduct Authority (FCA). Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAGA SERVICES LIMITED

(continued)

Strategic report and Directors' report

The Directors are responsible for the Strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 9, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SAGA SERVICES LIMITED
(continued)

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Stuart Crisp (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
Canary Wharf
London
E14 5GL

20 July 2022

SAGA SERVICES LIMITED**Income statement for the year ended 31 January 2022**

	Note	2022 £'000	2021 £'000
Turnover	3	180,148	178,611
Other operating income	1	13	13
Staff costs	7	(37,103)	(32,907)
Depreciation, amortisation and loss on disposal	4	(5,859)	(4,815)
Other operating charges	5	(73,632)	(72,560)
Profit on ordinary activities before taxation profit	4	63,555	68,342
Taxation	9	(11,571)	(13,233)
Profit for the financial year		51,984	55,109

There are no other items of comprehensive income other than those included above in the income statement. Accordingly, the profit for the financial year is also total comprehensive income for the year.

Notes 1 to 27 form an integral part of these financial statements.

SAGA SERVICES LIMITED**Balance sheet as at 31 January 2022**

	Note	2022 £'000	2021 £'000
Fixed assets			
Intangible assets	11	31,601	33,858
Tangible assets	12	815	758
Investment in subsidiary undertakings	13	-	-
		<u>32,416</u>	<u>34,616</u>
Current assets			
Debtors – amounts falling due after more than one year	14	71,674	76,293
Debtors – amounts falling due within one year	14	192,365	201,609
Cash at bank and in hand	15	24,131	19,443
		<u>288,170</u>	<u>297,345</u>
Creditors – amounts falling due within one year	16	<u>(178,376)</u>	<u>(161,608)</u>
Net current assets		<u>109,794</u>	<u>135,737</u>
Total assets less current liabilities		<u>142,210</u>	<u>170,353</u>
Creditors – amounts falling due after more than one year	17	(1,529)	(1,911)
Provisions for liabilities	18	(5,483)	(10,228)
		<u>135,198</u>	<u>158,214</u>
Net assets		<u>135,198</u>	<u>158,214</u>
Capital and reserves	20		
Called up share capital		2,100	2,100
Capital contribution reserve		1,563	1,563
Retained earnings		131,535	154,551
Other reserves		-	-
Shareholder's funds		<u>135,198</u>	<u>158,214</u>

Signed for and on behalf of the Board by:

Steve Kingshott

S Kingshott
 Director
 19 July 2022

Company Registration no: 00732602

Notes 1 to 27 form an integral part of these financial statements.

SAGA SERVICES LIMITED
Statement of changes in equity for the year ended 31 January 2022

	Called-up Share Capital	Capital Contribution Reserve	Retained Earnings	Other Reserves	Total Equity
	£'000	£'000	£'000	£'000	£'000
At 1 February 2020	2,100	1,563	167,070	7,372	178,105
Profit for the financial year	-	-	55,109	-	55,109
Transfer between reserves (note 20)	-	-	7,372	(7,372)	-
Dividends paid	-	-	(75,000)	-	(75,000)
At 31 January 2021	2,100	1,563	154,551	-	158,214
Profit for the financial year	-	-	51,984	-	51,984
Dividends paid	-	-	(75,000)	-	(75,000)
At 31 January 2022	2,100	1,563	131,535	-	135,198

Notes 1 to 27 form an integral part of these financial statements.

SAGA SERVICES LIMITED
Notes to the financial statements

1. General information

Saga Services Limited (the "Company") is a company incorporated and domiciled in the UK (Company No. 00732602) with a Registered Office; Enbrook Park, Sandgate, Folkestone, Kent CT20 3SE.

2. Significant Accounting policies

a) Basis of preparation

These financial statements are prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"), in accordance with applicable accounting standards and on a going concern basis. The Directors have reviewed the appropriateness of the going concern basis in preparing the financial statements, particularly in light of the COVID-19 pandemic and political uncertainty, details of which are included in note 2(b). Based on those assumptions, the Directors have concluded that it remains appropriate to adopt the going concern basis in preparing the financial statements.

The Company's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

The consolidated financial statements of Saga plc, within which this Company is included, can be obtained from the address given in note 26.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 "Share Based Payment" because the share based payment arrangement concerns the instruments of another group entity.
- b) the requirements of IFRS 7 "Financial Instruments: Disclosures".
- c) the requirements of paragraphs 91 to 99 of IFRS 13 "Fair Value Measurement".
- d) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 "Revenue from Contracts with Customers".
- e) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 "Leases".
- f) the requirement in paragraph 38 of IAS 1 "Presentation of Financial Statements" to present comparative information in respect of:
 - i) paragraph 79(a)(iv) of IAS 1;
 - ii) paragraph 73(e) of IAS 16 "Property, Plant and Equipment"; and
 - iii) paragraph 118(e) of IAS 38 "Intangible assets".

SAGA SERVICES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

a) Basis of preparation (continued)

- g) the requirements of paragraphs 10(d), 16, 38A, 38B-D, 111 and 134-136 of IAS 1 "Presentation of Financial Statements".
- h) the requirements of IAS 7 "Statement of Cash Flows".
- i) the requirements of paragraphs 30 and 31 of IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors".
- j) the requirements of paragraph 17 of IAS 24 "Related Party Disclosures".
- k) the requirements in IAS 24 "Related Party Disclosures" to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

b) Going concern

The Directors have considered the appropriateness of the going concern basis of preparation for the financial statements prepared to 31 January 2022 and in doing so have considered a range of possible scenarios that factor in the potential ongoing impact of the COVID-19 pandemic and other key risks and uncertainties.

The Company's business activities, together with the factors likely to affect its future development and performance, its exposure to risk and its management of these risks, are described on pages 3-5. As a consequence, the Directors believe that the Company is well-placed to successfully manage its business risks, but given the Company is a guarantor on the Saga plc bank debt and unsecured bond, and provides a super security for the Saga Pension Scheme, it remains exposed to the fortunes of the wider Saga plc Group.

The impact of COVID-19 over the past two years has increased the level of uncertainty for the Company, as it has done for many businesses, including the wider Saga plc Group. The Company continues to perform well, having been successful in maintaining operational capability throughout the period. Cash generation continues to be resilient, with adverse impacts being limited to a reduction in Travel insurance brokerage revenues, with other products continuing to perform in line with expectations.

As disclosed in note 23 to the financial statements, the Company acts a guarantor to the £150 million and £250 million senior unsecured bonds due 2024 and 2026 respectively, and the term loan and revolving credit facility of the Group, and provides a super security for the Saga Pension Scheme. In addition to this, as part of the Saga plc Group, the Company is also partly dependent on the provision of shared back-office functions such as Finance, IT, HR, Risk and Compliance.

SAGA SERVICES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

b) Going concern (continued)

As a subsidiary of the wider Saga plc Group ('Group'), the Company, along with other Group subsidiaries, has increased the frequency and depth of its long-term financial forecasting and scenario modelling to facilitate appropriate management of financial risks. Over the past two years, the Group has undertaken a series of transactions to restructure its operations and capital structure, strengthening the Group's balance sheet to allow it to withstand a further period of uncertainty that may be faced in 2022 and beyond.

The latest scenarios have considered a range of downside sensitivities, including further COVID-19 related disruption to the Group's travel businesses, higher inflation driven in part by the Russia-Ukraine conflict, and an initial estimate of the impact of the FCA market study on general insurance customer pricing which is expected to have an adverse impact on profit before tax in 2022/23 and 2023/24. Further details on the actions taken and downside stress-testing for the Group are contained in note 2.3 of the Saga plc Group financial statements. From these considerations, the Directors have a reasonable expectation that potential stresses on the Group will not undermine the going concern basis of accounting for the Company.

Management have also reviewed a range of other risks and inputs for the Company, with management satisfied that the going concern basis is appropriate. This review has included:

1. Warning and quantification of the PRUs facing the business, This has been supported by the Risk, Internal Audit and Finance functions and includes a range of activities, such as risk identification, assessment, mitigation design and effectiveness testing, incident reporting, audit and stress testing.
2. Long-and-short term planning information: incorporating annual five-year plans, budgets and intra-year forecasts of profitability and cash flow. Alongside these, the Company monitors and quantifies financial risks and opportunities as they arise, with planning information including specific consideration of the impact of the market study into general insurance pricing.
3. Compliance reporting across various regulatory bodies, and particularly the FCA.
4. Any cross-company trading relationships, guarantees and potential impact on these from PRUs facing the wider Saga plc Group.
5. Management information detailing recent actual trading performance against previous periods and budgeted performance levels.

The Company's financial plans include management's view of the impact of the FCA market study pricing rules, which is expected to have an adverse impact on profit before tax in 2022/23 and 2023/24.

SAGA SERVICES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

b) Going concern (continued)

The long-term impact of the COVID-19 pandemic cannot be accurately predicted and it is not possible to assess all possible future implications for the Company; however, based on the analysis performed the Directors are confident that the Company will continue to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements. The Directors have therefore deemed it appropriate to prepare the financial statements to 31 January 2022 on a going concern basis.

c) Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year that are not readily apparent from other sources. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and predictions of future events and actions. Actual results may therefore differ from those estimates. Below sets out those items the Company considers susceptible to changes in critical estimates and assumptions together with the relevant accounting policy.

Revenue recognition – three-year fixed-price insurance policies

The stand-alone selling price of the option to fix within the Company's three-year fixed-price insurance policies has been estimated using the expected cost plus a margin approach as set out in paragraph 79 (b) of IFRS 15.

An allowance has also been made for the likelihood that the option will be exercised by factoring in the expected rate of renewal at the first and second renewal dates. The amount of revenue deferred upon initial recognition is therefore reduced to the extent that it is estimated that customers will not exercise the option due to the fact that they either decide not to renew or they make a claim that releases the Company from its obligation to fix the customer price.

Provision recognition – remediation cost

The estimated costs of providing remediation resulting from legacy system issues that have resulted in customer outcomes below the standards that the Company expects are recognised as a liability on the balance sheet.

A range of estimates have been quantified for each identified issue individually, with the most likely outcome being recognised as a provision. Estimates have been made through use of a range of internal information, utilising a data-driven approach wherever practical.

SAGA SERVICES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

d) Turnover and cost of sales

Revenue is recognised in the income statement in line with the performance obligations. Revenues received in connection with the sale or renewal of insurance policies are recognised at the cover start date of the policy.

Where revenue relates to twelve-month insurance policies with no option to fix the premium at renewal ("annual policies"), performance obligations in accordance with IFRS15 are satisfied when the obligation to arrange insurance for the customer has been satisfied.

Where revenue relates to twelve-month insurance policies with the option to fix the premium over three years ("three-year fixed-price policies"), it is allocated to the performance obligations of the contract, being the arrangement of the insurance in each year and the option to fix the customer price at renewal. The revenue allocated to the option to renew at a fixed price is recognised when either the customer exercises the option at the first and second renewal dates, or sooner if the customer cancels the policy mid-term or makes a claim that releases the Company from its obligation to fix the customer price. The carrying value of the revenue deferred in this instance is recognised within accruals and deferred income in the balance sheet.

Additional revenue may be earned dependent upon the underwriting results of the business insured. This income is recognised when the results of this business can be determined reasonably. Other revenue, including fees for arranging insurance policies, is recognised when the Company's right to receive payment is established.

Premium finance interest earned on instalment sales, and charged under the Consumer Credit Act, 1974, where customers choose to pay over a monthly instalment plan instead of one single, upfront payment, is recognised in the income statement over the term of the related agreement using the effective interest method.

SAGA SERVICES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

e) Intangible fixed assets

Internally generated intangibles, excluding internally developed software, are not capitalised and the related expenditure is reflected in the income statement in the period in which the expenditure is incurred.

Expenditure on software development activities is capitalised if: (a) the product, or process, is technically and commercially feasible; (b) the Company intends and has the technical ability and sufficient resources to complete development; (c) future economic benefits are probable; and (d) the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of relevant overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Software intangible assets capitalised as a result of development activities are amortised from the point in time when the asset is available for commercial use.

The cost of intangible fixed assets less their expected residual value is amortised by equal instalments over their useful economic lives. These lives are as follows:

Computer software	3 years
Internally developed software costs	3 - 10 years

Intangible computer software fixed assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such costs include costs directly attributable to making the asset capable of operating as intended. The cost of computer software intangible fixed assets less their expected residual value is amortised by equal instalments over their useful economic lives. Computer software fixed assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for intangible computer software fixed assets are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The carrying values of software intangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

SAGA SERVICES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

f) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

The cost of tangible fixed assets less their expected residual value is depreciated by equal instalments over their useful economic lives. These lives are as follows:

Computer hardware	4 - 5 years
Property fixtures and fittings	3 - 5 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

A tangible fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

g) Trade and other debtors

Trade debtors include amounts not yet due in respect of insurance premiums and connected income where the policyholder has elected to pay in instalments over the term of the policy. They are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost, using the effective interest rate method. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Amounts due from group undertakings are classified as debtors. They have no fixed date of payment and are payable on demand. The amounts due from group undertakings are disclosed at fair value.

h) Cash at bank and in hand

Cash at bank and in hand in the balance sheet comprise cash and deposits with a maturity of three months or less from their inception date.

SAGA SERVICES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

i) Trade and other creditors

Trade and other creditors are initially recognised at fair value, and where the time value of money is material, subsequently measured at amortised cost using the effective interest method. They represent liabilities to pay for goods or services that have been received or supplied in the normal course of business, invoiced by the supplier before the year end, but for which payment has not yet been made. Insurance creditors generally have 45-90 day terms, following the due date of the receivable from customers which can be either paid upfront or by instalment over the policy period.

Amounts due to group undertakings are classified as loans and borrowings. They have no fixed date of payment and are payable on demand. The amounts owed to group undertakings are disclosed at fair value.

j) Pension benefits

The Company makes contributions to the Saga Pension Scheme, a defined benefit pension scheme (the 'Scheme'). Contributions are made on the advice of actuaries for funding of retirement benefits in order to build up reserves for participating employees during the employee's working life to pay a pension after retirement.

The Company's employees are members of a group wide defined benefit pension plan. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is another member of the Group. The Company then recognises a cost equal to its contribution payable for the period.

The Scheme was closed to future accrual on 31 October 2021, with all members moving from active to deferred status. In its place, the Group launched a new defined contribution pension scheme arrangement, operated as a master trust.

k) Income taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

SAGA SERVICES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

k) Income taxes (continued)

Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been substantively enacted or fully enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is dealt with in other comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

l) Financial instruments

i) Financial assets

On initial recognition, a financial asset is classified as either Amortised Cost; Fair Value Through Other Comprehensive Income (FVOCI) – debt investment; FVOCI – equity investment; or Fair Value through Profit and loss (FVTPL). The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The Company measures all financial assets at fair value at each reporting date, other than those instruments measured at amortised cost.

The Company's financial assets at amortised cost include amounts due from group undertakings and trade debtors. The Company does not hold any financial assets classified as fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL).

SAGA SERVICES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

i) Financial instruments (continued)

Financial Assets at Amortised Cost

Initial Recognition

A financial asset is classified at amortised cost (plus any directly attributable transaction costs) if it meets both of the following conditions and is not elected to be designated as a FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent Measurement

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss as they are incurred. Any gain or loss on derecognition is recognised in profit or loss immediately.

Derecognition

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or when the Company has transferred substantially all the risks and rewards relating to the asset to a third party.

ii) Impairment of financial assets

The expected credit loss ('ECL') impairment model applies to financial assets measured at amortised cost and debt investments at FVOCI.

The Company measures loss allowances at an amount equal to 12-month ECLs, except for trade receivables and contract assets that result from transactions within the scope of IFRS 15.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

SAGA SERVICES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

l) Financial instruments (continued)

ii) Impairment of financial assets (continued)

Measurement of ECLs

ECLs are measured as a probability-weighted estimate of credit losses. Credit losses are measured as the probability of default in conjunction with the present value of the Company's exposure. Loss allowances for ECLs on financial assets measured at amortised cost are recognised as a provision in the balance sheet with a corresponding charge to the income statement.

iii) Financial liabilities

Initial recognition and measurement

All financial liabilities are classified as financial liabilities at amortised cost on initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, and loans and borrowings.

Subsequent measurement

After initial recognition, interest bearing loans and borrowings and other payables are subsequently measured at amortised cost using the effective interest rate ('EIR') method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

m) Investment in subsidiaries

Investment in subsidiaries are held at cost less accumulated impairment losses.

SAGA SERVICES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

n) Impairment of investment in subsidiaries

The Company undertakes a full impairment review of the carrying value of investment in subsidiaries at each reporting date. If such an indication exists, the recoverable amount is estimated and compared to the carrying amount. If the recoverable amount is less than the carrying amount, the asset is considered impaired and is written down to its recoverable amount and the impairment loss is recognised immediately in the income statement.

o) Provisions for liabilities

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision is recognised for onerous contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

p) Leases

Payments associated with short-term leases of equipment and all leases of low-value assets are expensed in profit or loss as incurred in line with the exemption allowed under paragraph 6 of IFRS 16. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

SAGA SERVICES LIMITED

Notes to the financial statements (continued)

2. Significant Accounting policies (continued)

q) Share-based payments

Saga plc, the ultimate parent company of the Saga group, provides benefits to employees of the Company (including Directors) in the form of long-term incentives whereby employees render services in consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions is measured at fair value and is recognised as an expense over the relevant vesting period, ending on the date on which the employee becomes fully entitled to any award.

In valuing equity settled transactions, assessment is made of any vesting conditions to categorise these into market performance conditions, non-market performance conditions and service conditions.

Where the equity settled transactions have market performance conditions (that is, performance which is directly or indirectly linked to the share price of Saga plc), the fair value of the award is assessed at the time of grant and is not changed, regardless of the actual level of vesting achieved, except where an employee ceases to be employed prior to the vesting date.

For service conditions and non-market performance conditions, the fair value of the award is assessed at the time of grant and is reassessed at each reporting date to reflect updated expectations for the level of vesting. No expense is recognised for awards that ultimately do not vest.

3. Turnover

Turnover primarily comprises revenues receivable in connection with the sale or renewal of insurance policies and additional revenues that are linked to the results of our underwriting panel. Premium finance interest earned on instalment sales, and charged under the Consumer Credit Act 1974, is recognised in the income statement over the term of the related agreement using the effective interest method. All business is carried out in the United Kingdom, the Channel Islands and the Isle of Man.

SAGA SERVICES LIMITED**Notes to the financial statements (continued)****4. Profit on ordinary activities before taxation**

	2022 £'000	2021 £'000
This is stated after charging:		
Depreciation of owned tangible fixed assets (see note 12)	490	655
Amortisation of intangible fixed assets (see note 11)	5,272	4,160
Loss on disposal of fixed assets	97	-
Auditor's remuneration – audit of the financial statements	<u>235</u>	<u>252</u>

Any fees paid to the Company's auditor, KPMG LLP, for services other than the statutory audit of the Company are not disclosed in these financial statements since the consolidated financial statements of the ultimate parent undertaking, Saga plc, are required to disclose non-audit fees on a consolidated basis.

5. Other operating charges

	2022 £'000	2021 £'000
Marketing expenses	28,240	23,240
Management recharges	22,983	26,521
Other expenses	<u>22,409</u>	<u>22,799</u>
	<u>73,632</u>	<u>72,560</u>

6. Directors' remuneration

	2022 £'000	2021 £'000
Aggregate remuneration in respect of qualifying services	<u>506</u>	<u>822</u>
	2022	2021
Members of defined benefit pension scheme:	<u>1</u>	<u>1</u>

Among the Directors remunerated by the Company, the amounts paid in respect of the highest paid Director were as follows:

	2022 £'000	2021 £'000
Aggregate remuneration in respect of qualifying services	<u>161</u>	<u>471</u>

SAGA SERVICES LIMITED**Notes to the financial statements (continued)****7. Staff costs**

	2022	2021
	£'000	£'000
Wages and salaries	32,305	28,745
Social security costs	3,064	2,564
Pension costs	1,734	1,598
	<u>37,103</u>	<u>32,907</u>

employees during	The average monthly number of employees during the	2022	2021
	year was as follows:	No.	No.
	Sales & marketing	634	668
	Operations	238	246
	Administration and management	265	197
		<u>1,137</u>	<u>1,111</u>

8. Pension benefits

The Company's employees are members of a group wide defined benefit pension plan, the Saga Pension Scheme. As there is no contractual agreement or stated group policy for charging the net defined benefit cost of the plan to participating entities, the net defined benefit cost of the pension plan is recognised fully by the sponsoring employer, which is another member of the Group. The Company then recognises a cost equal to its contribution payable for the period.

The Scheme was closed to future accrual on 31 October 2021, with all members moving from active to deferred status. In its place, the Group launched a new defined contribution pension scheme arrangement, operated as a master trust.

The IAS 19 surplus (gross of deferred taxation) of the Scheme at 31 January 2022 was £11 million (2021: £4.3 million deficit).

Further details of the Scheme can be found in the financial statements of the ultimate parent company, Saga plc.

SAGA SERVICES LIMITED**Notes to the financial statements (continued)****9. Taxation**

	2022 £'000	2021 £'000
Current tax		
UK corporation tax at 19.00% (2021: 19.00 %)	12,137	13,038
Adjustments in respect of prior years	(237)	(178)
Total current tax	<u>11,900</u>	<u>12,860</u>
Deferred tax		
Origination and reversal of timing differences	(62)	(17)
Adjustments in respect of prior years	142	533
Effect of tax rate change on opening balance	(409)	(143)
Total deferred tax	<u>(329)</u>	<u>373</u>
Total tax expense in the income statement	<u>11,571</u>	<u>13,233</u>
Reconciliation of Total Tax Charge:-	2022 £'000	2021 £'000
Pre-tax profit at 19.00% (2021: 19.00 %)	12,075	12,985
Permanent differences	-	36
Adjustments in respect of prior years	(95)	355
Effect of tax rate change on opening balance	(409)	(143)
Rate change adjustment on temporary differences	-	-
Total tax expense in the income statement	<u>11,571</u>	<u>13,233</u>

On 3 March 2021, it was announced that the corporation tax rate will increase from 19% to 25% from 1 April 2023. This increase was substantively enacted on 24 May 2021. As a result, the closing deferred tax balances at the statement of financial position date have been reflected at 25%.

10. Dividend

A dividend of £35.71 per share (2021: £35.71) has been paid during the year at a cost of £75,000,000 (2021: £75,000,000).

SAGA SERVICES LIMITED**Notes to the financial statements (continued)****11. Intangible fixed assets**

	Software £'000
Cost	
At 1 February 2021	73,179
Additions	3,109
Disposals	(18,223)
At 31 January 2022	<u>58,065</u>
Amortisation	
At 1 February 2021	39,321
Charge for period	5,272
Disposals	(18,129)
At 31 January 2022	<u>26,464</u>
Net book amounts	
At 31 January 2022	<u>31,601</u>
At 31 January 2021	<u>33,858</u>

The net book value of software at 31 January 2022 includes internally generated software of £25,956,000 (2021: £28,672,000) relating to the Company's Guidewire platform. Software additions in the year include internally generated software of £3,108,000 (2021: £3,122,000) largely relating to the Company's Guidewire platform and product proposition enhancements. Guidewire is the Company's insurance broking, policy administration and billing platform. The Guidewire platform has an expected useful economic life of 10 years, with 6 years of phase one expenditure remaining at 31 January 2022. Implementation and the commencement of amortisation of the Guidewire platform is on a phased basis, based on product re-platforming, and began in the year ended 31 January 2019.

During the year, the Group disposed of assets with a net book value of £94,000 (2021: £nil). The loss arising on disposal was £94,000 (2021: £nil).

SAGA SERVICES LIMITED**Notes to the financial statements (continued)****12. Tangible fixed assets**

Cost	Fixtures and fittings £'000	Computer hardware £'000	Total £'000
At 1 February 2021	353	10,740	11,093
Additions	3	546	549
Disposals	(254)	(9,444)	(9,698)
At 31 January 2022	102	1,842	1,944
Depreciation			
At 1 February 2021	336	9,999	10,335
Charge for year	16	474	490
Disposals	(254)	(9,442)	(9,696)
At 31 January 2022	98	1,031	1,129
Net book amounts			
At 31 January 2022	4	811	815
At 31 January 2021	17	741	758

During the year, the Group disposed of assets with a net book value of £3,000 (2021: £41,000) (2021: £nil). The loss arising on disposal was £3,000 (2021: £nil).

13. Investment in subsidiary undertakings

Cost	2022 £'000	2021 £'000
At 1 February	-	28,911
Disposals	-	(28,911)
At 31 January	-	-

In the prior year, the subsidiary undertaking of the Company, which was wholly owned and registered in England, was Bennetts Motorcycling Services Limited.

On 17 February 2020 the Group announced that it had reached agreement for the sale of Bennetts for an enterprise value of £26 million to Atlanta Investment Holdings C Limited ("Atlanta"). Atlanta is part of The Ardonagh Group, one of the largest independent insurance brokers in the UK. Completion was subject to receiving regulatory approval and other closing conditions.

On 7 August 2020 the disposal of Bennetts Motorcycling Services Limited to Atlanta Investment Holdings C Limited was completed following the receipt of regulatory approvals.

SAGA SERVICES LIMITED**Notes to the financial statements (continued)****14. Debtors**

	2022	2021
	£'000	£'000
Due after more than one year		
Amounts due from fellow group undertakings	69,967	74,915
Deferred taxation	1,707	1,378
	<u>71,674</u>	<u>76,293</u>
Due within one year		
Trade debtors	90,657	95,892
Amounts due from fellow group undertakings	89,292	91,514
Prepayments and accrued income	12,416	14,106
Other taxes and social security	-	97
	<u>192,365</u>	<u>201,609</u>

Deferred taxation comprises excess depreciation over capital allowances of £1,444,000 (2021: £1,218,000) and short-term timing differences of £263,000 (2021: £160,000).

15. Cash at bank and in hand

	2022	2021
	£'000	£'000
Cash at bank and in hand	<u>24,131</u>	<u>19,443</u>

The Company is required to comply with the Adequate Resources requirements of Threshold Condition 2.4 of the FCA Handbook. The Company undertakes a rigorous assessment against the requirements of this Condition on an annual basis and as a consequence of this, calculates and holds an appropriate amount of liquid capital in respect of the insurance distribution business. Cash at bank and in hand includes £6,748,000 (2021: £6,740,000) held in this respect. In addition, the Company is holding a further £5,000,000 cash as temporary additional liquidity to mitigate against exposure to COVID-19 related risks in other Group entities. Both amounts are recognised as unavailable cash within both the Company's and the Saga plc Group's consolidated financial statements.

16. Creditors – amounts falling due within one year

	2022	2021
	£'000	£'000
Bank overdraft	229	260
Trade creditors	98,628	90,770
Amounts due to fellow group undertaking	47,140	39,792
Other creditors	431	253
Accruals and deferred income	31,948	30,533
	<u>178,376</u>	<u>161,608</u>

SAGA SERVICES LIMITED**Notes to the financial statements (continued)****17. Creditors – amounts falling due after more than one year**

	2022	2021
	£'000	£'000
Accruals and deferred income	1,529	1,911
	<u>1,529</u>	<u>1,911</u>

18. Provision for liabilities

	PMI provision £,000	Other provisions £,000	Total £,000
Balance at 1 February 2021	4,925	5,303	10,228
Utilised during the year	(4,835)	(4,604)	(9,439)
Released unutilised during the year	-	(269)	(269)
Charge for the year	688	4,275	4,963
Balance at 31 January 2022	<u>778</u>	<u>4,705</u>	<u>5,483</u>

COVID-19 continues to lead to a high level of disruption to private medical inpatient appointments, with appointments and operations initially being delayed and rescheduled. In the current year, a provision has been recognised relating to the underwriting performance of the private medical insurance (PMI) product due to the higher level of claims cost incurred during the year and the liability to the underwriter that this gives rise to. In the prior year, delayed appointments had a favourable impact on the underwriting performance of PMI, resulting in a profit share due from the underwriter. Due to the Group's public commitment to not profit from the impacts of COVID-19, a provision to offset this profit share was made during the prior year and utilised during the current year against further claims cost incurred.

The other provisions relate to repayments to policyholders that the Company may be obliged to make, either as a result of cancellations occurring during the statutory cooling off period or future mid-term policy cancellations. In addition, management recognise a provision for areas where there is likely to be a requirement to remedy errors that have had an adverse impact on customer outcomes. In such cases, management quantified a best estimate for this provision based on a range of outcomes, using internal information and data wherever possible.

SAGA SERVICES LIMITED

Notes to the financial statements (continued)

19. Contingent liabilities

In addition to the matters set out in Note 18 regarding provisions in relation to customer remediation and redress, the Company is regulated and required to comply with a large number of laws and regulations. The Company is part of a Group that operates a system of risk management and internal control that is designed to minimise the risk of non-compliance with such laws and regulations. However, failure to comply with such laws or regulations once discovered could result in litigation from affected parties and/ or regulatory sanction. While the outcome of any such matters cannot be predicted with certainty, the Directors believe that their ultimate outcome will not have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

20. Called up share capital

	2022	2021
	£'000	£'000
Allotted, called up and fully paid		
2,100,000 ordinary shares of £1 each	<u>2,100</u>	<u>2,100</u>

The capital contribution reserve is in respect of contributions from the ultimate parent company, Saga plc, in relation to share-based awards made by it to the Company's employees (see note 22). Further information can be found in the financial statements of Saga plc.

Retained earnings represent cumulative profit or losses, net of dividends and other adjustments.

The other reserves related to a non-distributable unrealised gain that arose in the year ended 31 January 2019 on the disposal of the trade and assets of the Bennetts brand into Bennetts Motorcycling Services Limited (BMSL), a wholly owned subsidiary of the Company. In August 2020 when the Company disposed of BMSL (note 13), the gain became realised and distributable, and accordingly was transferred to retained earnings.

21. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries in the Saga group of companies.

22. Share-based payments

Saga plc, the ultimate parent of the Saga group, uses equity-settled share plans to grant options and shares to the Company's Directors and employees. Equity-settled share-based payments issued to the Company's employees are measured at fair value and that this value is expensed over the vesting period.

Share options are granted under the Saga plc Long-Term Incentive Plan ('LTIP') and Restricted Share Plan ('RSP').

SAGA SERVICES LIMITED**Notes to the financial statements (continued)****22. Share-based payments (continued)**

The LTIP is a discretionary executive share plan. Under the LTIP, the Saga plc Board may, within certain limits and subject to applicable performance conditions, grant options over shares in Saga plc. Up to 31 January 2017, these options are 50% linked to a non-market vesting condition, EPS, and 50% linked to a market vesting condition, TSR. From 1 February 2017 to 31 January 2018, these options are 60% linked to non-market vesting conditions (30% linked to basic EPS and 30% linked to organic EPS) and 40% linked to a market vesting condition, TSR. From 1 February 2018, these options are 60% linked to non-market vesting conditions (30% linked to organic EPS and 30% linked to ROCE) and 40% linked to a market vesting condition, TSR. From 1 February 2019, these options are 75% linked to non-market vesting conditions (50% linked to operational and strategic measures and 25% linked to ROCE) and 25% linked to a market vesting condition, TSR. The fair value of the options has been calculated using a Black-Scholes valuation.

The RSP is a discretionary executive share plan under which the Board may grant options over shares in Saga plc.

The table below summarises the movements in the number of share options outstanding for the employees of the Company and their weighted average exercise price:

	RSP	LTIP
Outstanding at 1 February 2021	118,787	93,566
Granted during the year	66,998	-
Forfeited during the year	(72,332)	(45,656)
Exercised during the year	-	-
Outstanding at 31 January 2022	113,453	47,910
Exercise price	£nil	£nil
Exercisable at 31 January 2022	-	543
Average remaining contractual life	1.9 years	0.7 years
Average fair value at grant	£3.25	£6.90

Details of the information relevant in determining the fair value of options granted is available in the financial statements of Saga plc.

SAGA SERVICES LIMITED

Notes to the financial statements (continued)

23. Cross company guarantees

The Saga plc Group's bank facilities consist of a £150.0 million seven-year senior unsecured bond (repayable May 2024), a £250.0 million five-year senior unsecured bond (repayable July 2026) and a £100.0 million five-year revolving credit facility with availability until May 2025 dependent on the repayment of the bond due in May 2024. The bonds are listed on the Irish Stock Exchange.

The £150 million seven-year senior unsecured bond due 2024, and the £250 million five-year senior unsecured bond due 2026, are both guaranteed by Saga Services Limited and Saga Mid Co Limited, a fellow group undertaking. The £150 million seven-year senior unsecured bond due 2024 was issued on 12 May 2017 and the £250 million five-year senior unsecured bond due 2026 was issued on 2 July 2021. The Company has also guaranteed the revolving credit facility.

At 31 January 2022 the principal, accrued interest, guarantees and other facilities outstanding on the revolving credit facility and bonds was £402.5 million (2021: £347.3 million).

The Company has provided a super security to the Trustees of the Saga Pension Scheme, which ranks before any liabilities under the Group's bank facilities detailed above. The value of the security is capped at £47.5 million.

24. Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

For the purposes of the Company's capital management, capital comprises total equity of £135.2 million (2021: £158.2 million) as shown on the balance sheet. The Company has complied with externally imposed capital requirements during the year.

The Company's regulated insurance distribution business is based in the UK and is regulated by the Financial Conduct Authority. The Company is required to comply with the Capital resources requirements of MIPRU 4.2 of the FCA Handbook. The Minimum Regulatory Capital requirement at 31 January 2022 was £4.4 million (2021: £5.3 million).

25. Post balance sheet events

Since the year end, the Directors have declared a dividend of £35.71 per share at a cost of £75,000,000.

SAGA SERVICES LIMITED

Notes to the financial statements (continued)

26. Ultimate parent undertaking

The immediate parent undertaking is Saga Group Limited, a company which is registered in England and Wales. The Company is wholly owned by Saga Group Limited.

In respect of the year ended 31 January 2022, Saga plc is the parent company of the smallest group of which the Company is a member and for which group financial statements are prepared.

A copy of the financial statements of Saga plc for the year ended 31 January 2022 may be obtained from the corporate website www.corporate.saga.co.uk or from the Company Secretary, Saga plc, Enbrook Park, Folkestone, Kent, CT20 3SE.

27. Ultimate controlling party

The Directors consider the ultimate controlling party to be Saga plc.